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Executive Summary

The aim of this research was to gain some insight into the scale of the social enterprise sector within Moray and to identify the support needs for the sector. It is anticipated that the report will help inform a strategy for the development of social enterprise within Moray.

The findings of this research outline a number of changes that it is anticipated will help to inform a strategy for the development of social enterprise within Moray.

1. A range of different organisations expressed some confusion regarding the legal structure most appropriate for them, including how best to set up a trading subsidiary of their organisation. There were also examples of unincorporated organisations which had secured significant amounts of public funding and who were providing goods and services and employing staff without the legal protection afforded by limited company status. This would indicate a need for the provision of good quality legal advice to support these needs.
2. A wide range of issues identified in relation to good governance and the capacity of volunteer trustees to help organisations develop were developed. As well as the provision of generic training around governance it is therefore recommended that consideration is given as to how a bespoke support and training package could be delivered within Moray which will work in a supportive way to promote best practice.
3. Clearly there is no magic wand to be waved, but consideration should be given as to how to engage a more diverse sample of people on to social economy/enterprise boards. Different approaches should be considered, including partnership working with bodies such as REACH who place retired business people with third sector organisations or setting up a new scheme within Moray.
4. There was recognition of the growing importance of Service Level Agreements and contracts but some confusion amongst those interviewed about how they operate and about the perceived lack of transparency in the process at present. It is recommended therefore that a simple booklet be produced to explain what a Service Level Agreement is and outlining the process of how these are initiated, developed and monitored by the key public agencies within Moray. The obvious starting point for this would seem to be the Moray Council review of SLA's within the context of the wider Community Planning Partnership.
5. Bridging the gap between commissioning /procurement officers and social economy organisations will be a key plank in the development of the sector in Moray. HISEZ has been successful within Highlands at facilitating training which has brought both sides together in order to raise mutual awareness. It is recommended that the HISEZ model of providing training which brings together procurement officers and social enterprise/social economy organisations is replicated in Moray.

6. An increasing percentage of social economy organisations are currently accessing or planning to access loans in the next three years. However, there is still a fairly significant cultural jump to be made in this direction. One way to support this process could be to investigate the potential merit in looking at local investment vehicles for new and emerging social enterprises, which could include options such as loan guarantee schemes, soft loans and patient equity investments etc.
7. One of the most established social enterprise strands within Moray is the credit union sector, which currently has two providers with over 500 adult members in Moray and a growing proportion of junior savers. There has been no developmental funding for credit unions within Moray, and growth here has been slower than those parts of Aberdeen and Aberdeenshire which have had such support. It is recommended that consideration is given as to how to best support the growth in credit union membership within Moray. Options include providing direct financial support and infrastructure support through local pay points in civic sites such as local authority access points.
8. A number of forward thinking organisations in Moray have taken an asset based approach to development. Considerations should be given as to how to help social economy organisations develop an asset base and this should be incorporated into any potential loan guarantee or investment scheme.
9. There is also scope to identify a Moray wide Development Trust approach to acquiring rental property for social economy organisations which keeps income within the sector.
10. A wide range of support needs were identified by interviewees. In order to meet these needs it is proposed that a Moray wide Social Enterprise Network should be launched which can act as a new “hub” organisation which will network new and emerging social enterprises; co-ordinate training needs and facilitate the provision of both generic and specialist advice.
11. One of the roles of this Network should be to support social enterprises to raise their profile within Moray, In order to do this it is crucial that social enterprises and social economy organisations accept their responsibility to demonstrate the added value they bring and that financial support is provided over the next three years to facilitate this process and embed it within social enterprises.
12. There is a link between these support needs and the potential to set up a centre of excellence. The next stage of this research will be to further explore the options for a centre of excellence within Moray with a feasibility study to be completed by the end of March 2007.

Introduction

HIE Moray commissioned a two part research study to map the social economy sector in Moray and to carry out a feasibility study into the potential for a Centre of Excellence to be developed in Moray.

This interim report relates to the mapping exercise and builds on a scoping study carried out by HISEZ for the Moray Social Economy partnership in Moray in June 2006.

The project brief in relation to the mapping exercise was to:

1. map and size the distribution of social economy of the Moray region.
2. compile a comprehensive database of all active and emerging SE organisations.
3. establish the SE potential for development and growth.
4. provide SWOT analysis on the Social Economy in Moray.
5. discovering the opportunities that exist for social economy to compete successfully for public sector contracts.
6. consider the factors which have underpinned existing success stories within the Social Economy sector such as public procurement, provision of public services and regeneration projects.
7. examine the capacity and the potential of the sector generally to build on existing success and to contribute to the stepped changed that is required to improve on the effectiveness of Social Economy provision for public sector services.

Identify the obstacles which are perceived to inhibit organisations within the sector from fulfilling their potential and present a plan of action for tackling those obstacles.

Social Enterprise – The Context

In the recent national consultation exercise for ‘A Social Enterprise Strategy for Scotland’, social enterprise was defined “as businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders or owners” (DTI, 2002)

In order to be recognised as an established social enterprise the DTI identify that there needs to be a trading income of at least 50% of overall income. This figure drops to 25% for new social enterprises. The DTI define the trading element as “the direct exchange of goods or services”. In the context of the Scottish executive

consultation this was broadened out to include contracts and Service Level Agreements.

At the local, national and UK there is broad consensus about the positive role that social enterprises can play. Within Moray the joint HIE Moray and Moray Council '20 20' document states that, "The public sector in Moray is looking to the social economy to provide services across a range of sectors and there is growing evidence of the significance of social economy organisations in driving flexible and responsive services in a community setting. We will therefore be ensuring that support is available to help social economy organisations start up and grow".

Within Scotland all of the main political parties support to varying degrees the concept of social enterprise. The current executive has launched a major consultation document and has funded the first two phases of the Futurebuilders grant programme for social enterprises. The minority Liberal Democrat Party in the executive have outlined their intention to see wider delivery of services by locally accountable trusts rather than directly through local government.

At a UK level the government has just announced a new action plan which aims to foster a culture of social enterprise; ensure that the right information and advice are available to those running social enterprises; enable social enterprises to access appropriate finance; enable social enterprises to work with government.

National research referred to in the November 2006 launch of the UK government's 'Social Enterprise Action Plan' identified 55,000 businesses which could be defined as social enterprises. DTI research identified over 1050 social enterprises in Scotland which generate over £1,000,000,000 per year, directly employing over 20,000 staff and 18500 volunteers (the number of enterprises has since been revisited and is estimated to be closer to 3000 now).

The research in this report aims to quantify the size of the social enterprise sector in Moray, and to outline the support needs of this sector now and into the future.

One of the drivers of the increased trading activities of social enterprise, and more-so social economy organisations has been about securing longer term financial sustainability in a world where successfully securing grant funding is becoming increasingly competitive and demanding.

In a parallel process income generated through trading is increasingly viewed as 'virtuous' in its own right and a sign of a forward thinking and competent business like orientated organisation. The corollary of this is that organisations which are not doing this engaging in trading activities are perceived to be to some extent caught in a dependency culture.

This report does not aim to address the philosophical implications of these perceptions, but does present a snapshot of the current position in Moray and to highlight the issues, concerns and difficulties faced by organisations operating within this culture. The organisations surveyed and interviewed range from the small and local to the large and national and from organisations with a largely charitable orientation to those with a more entrepreneurial focus.

Methodology

The methodology utilised a mixture of secondary and primary research.

The Desk research included:

HISEZ (2006) Moray Local Social Economy Partnership *Status Report.*

This document analysed information from questionnaires returned by range of social economy organisations in Moray.

Haldane Associates/Senscot/Communities Scotland (2006) *“Support Needs in the Social Enterprise Sector - One Size Doesn’t Fit All”.*

This report analysed the support needs of the social enterprise sector across Scotland utilising a mix of questionnaires and follow up telephone interviews.

Scottish Executive (2006) *“A Social Enterprise Strategy for Scotland – a Consultation”*

This is a current consultation document from the Scottish Executive which outlines the parameters for their strategy for social enterprise in Scotland. Their response is anticipated in December 2006.

The Primary research included:

1. The primary research phase involved the development of a questionnaire. It was decided not to issue the questionnaire to all of the organisations that had participated in the recent HISEZ scoping study. Instead a sample of the organisations from that study and who were already trading were sent questionnaires to establish whether or not their situation had changed markedly.
2. Questionnaires were also sent out to an additional 20 organisations that the research team felt would be able to add to the existing data source. 17 of these responded.
3. All of the respondees were then offered the chance to participate in a follow up semi structured interview designed to draw out further supplementary data.
4. The notes of each interview were sent back to the interviewee for any corrections. Once they had been approved a fee of £100 was made to the enterprise in recognition of the time they took to participate in the process.

Questionnaire Information

	Sent Out	Returned	Already trading	Planning to trade	Trading Totals
HISEZ questionnaire alone		82	26	5	31
REAP and HISEZ questionnaire		9	9	0	9
REAP questionnaire alone		17	14	3	17
Totals		108	49	8	57

Follow up Interviews

Emerging social enterprise	Established social enterprise	Trading below 25% of turnover	Not started but planning to trade	TOTAL
5	11	7	3	26

Questionnaire Analysis

The starting point for this research exercise was the information on relating to social enterprise / social economy organisations collated by HISEZ in February 2006. HISEZ identified a total of 35 third sector organisations which were currently generating income through trading.

REAP sent out a revised questionnaire to nine organisations who had responded to the initial HISEZ research, and also to a further 17 organisations who had not previously been involved.

The second questionnaire which was sent out as part of this research exercise was necessarily more detailed than that in the earlier version. It is therefore not always possible to directly put the two samples together, but where possible this has been done.

Legal Structures

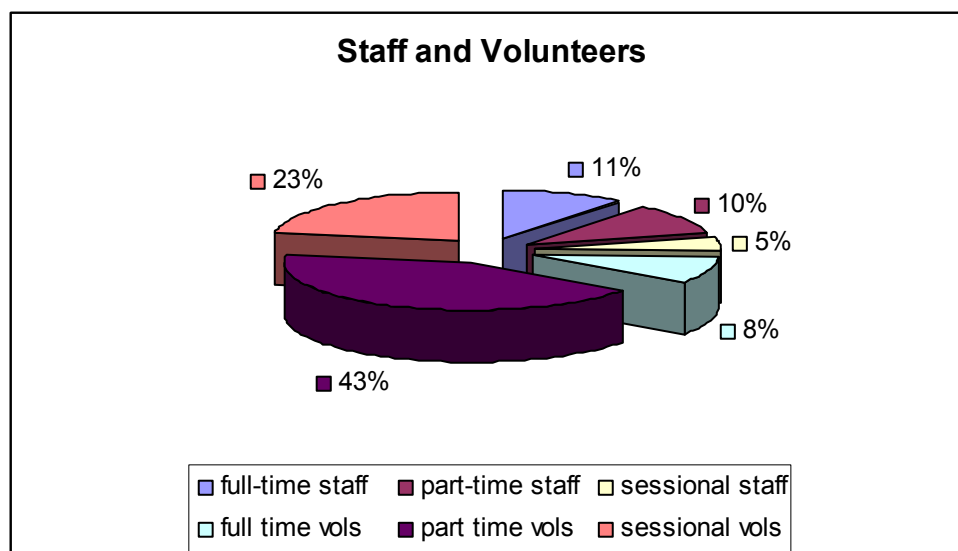
	HISEZ alone	REAP/HISEZ	REAP	TOTAL
Charity	20	5	15	40
Company Limited by Guarantee	unknown	5	8	13
Company Limited by Shares	unknown	1	2	3
Community Interest Company	unknown	0	0	0
Co-operative	unknown	3	0	3
Social Enterprise	unknown	4	5	9
Industrial and Provident	unknown	0	3	3
Other	unknown	1	3	4

1. Of the twenty organisations followed up in this research 65% were set up as charitable companies limited by guarantee.
2. Surprisingly, the charity with the most income and staff from the sample were currently operating as an unincorporated organisation, although they have since indicated that they are planning to become a company limited by guarantee.
3. None of the organisations surveyed had set up using the new Community Interest Company (CIC) structure.
4. Only 16% of the total sample identified themselves as social enterprises. One of the respondents who did not select this option noted that ***“We don’t really think of ourselves as a social enterprise, because it’s just buzz jargon that goes straight over our heads”*** – even though they operate a VAT registered trading arm.

Membership and Staffing

Further organisational analysis can be drawn from the 26 new questionnaires completed. These show that:

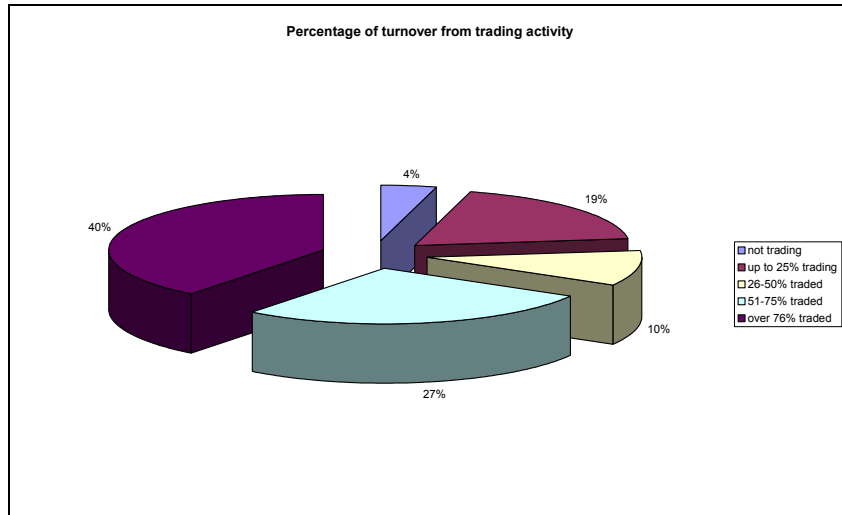
1. 14 (54%) were member organisations, with a total membership of 1651.
2. 11 (42%) organisations had 3-5 trustees, 6 (23%) had 6-8 trustees and 7 (27%) had more than 8.
3. Two organisations (8%) which are projects of a major national charity did not record any local trustees or management body.
4. The sector includes both paid (43%) and volunteer (57%) staff as shown in the diagram below.



Income Generating Activities.

The 56 trading organisations surveyed were asked to identify their income generating activities, and for most of them there was more than one activity.

1. Over a fifth of all respondents generated income through training/educational activities.
2. Retail was also mentioned by 14% of respondents and care was the next major area of activity being a core element for 13% of organisations



Future Trading Projections

1. Only one of the organisations surveyed in the two questionnaires predicted a drop in earned income
2. 12% envisaged that trading would remain the same
3. 85% projected increased income from trading.

Current Trading (as % of turnover)	Projected drop	Remain the same	Up by less than 20%	Up by more than 20%
76-100%		1	2	5
51-75%	1	1	2	1
26-50%		1	1	3
Less than 25%		2	3	
Totals	1	5	8	9

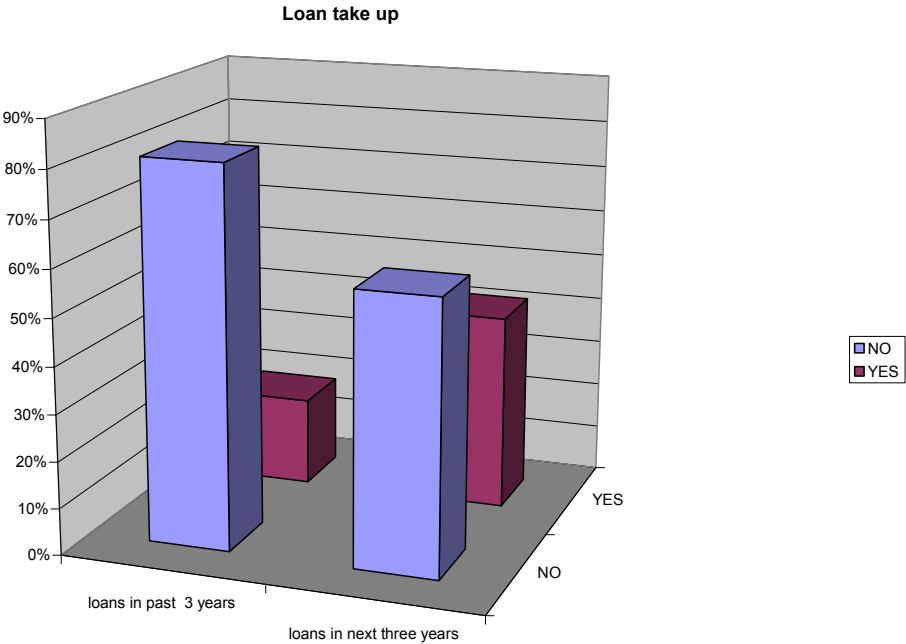
Loan Finance and Assets

Loan finance is seen as a critical component in the development of social enterprise within Scotland. The ‘Social enterprise strategy for Scotland’ consultation document notes that it is

“... important that we make sure appropriate loan products at competitive rates are available through Social Investment Scotland and locally based community development finance initiatives (CDFI’s)”.

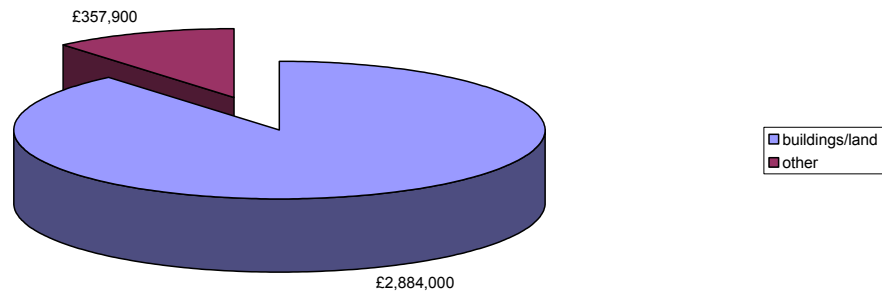
Within our sample of 26 who completed the REAP questionnaire there is a marked increase in the intention to secure loan finance over the next three years, rising from the current level of 19% of organisations up to 42%.

80% of the organisations who have already drawn down loans currently own physical assets, and 82% of those planning to draw down loans in the future will own physical assets.



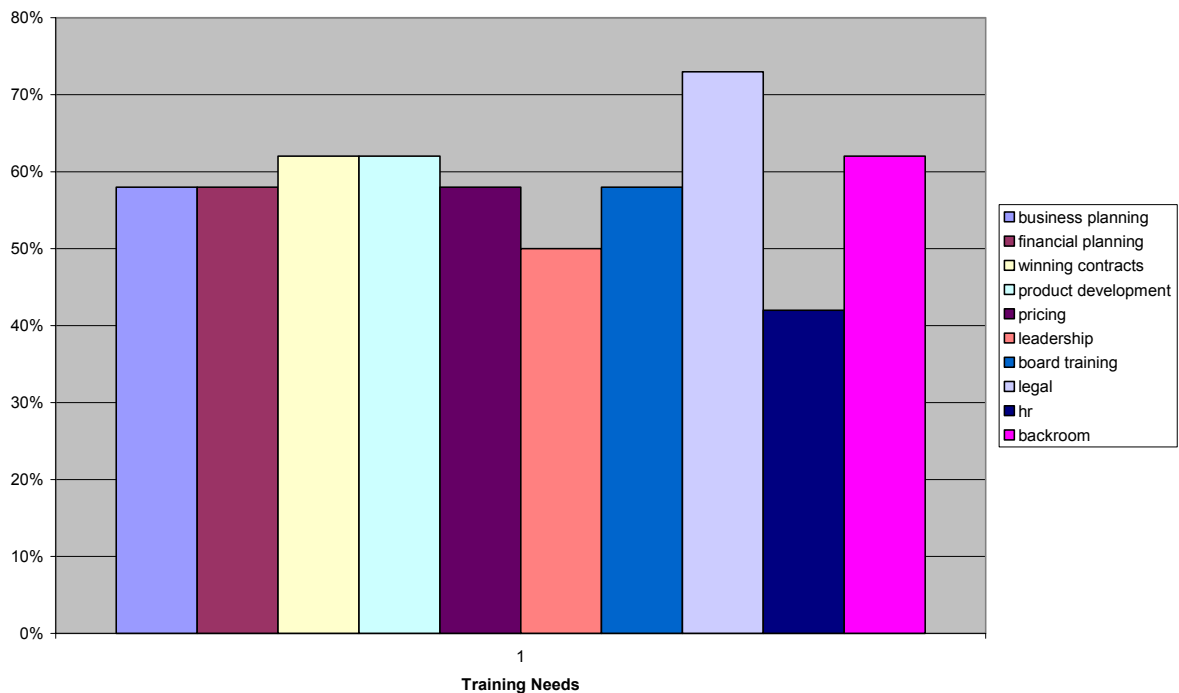
In all over 61% of the organisations currently own buildings with 46% owning other assets. In addition to these assets one organisation is drawing together the final strands of a funding package which will result in a building with an estimated valuation of £600,000, and another will be building private social housing with a built in asset lock.

Assets



Support needs

Respondents to the second questionnaire were asked their views on what their current support needs were and whether or not these needs could be met through a 'one-stop-shop' centre of excellence for social enterprises. 92% of respondents supported the idea of a centre, and all respondents identified support needs as outlined below.



Follow Up Interviews

All but one of the 26 organisations who completed the REAP questionnaire participated in follow up interviews, some of which took place face to face and some of which were telephone interviews.

The interviews were structured around a number of questions which probed some of the initial questionnaire information further and which sought new insights into the current capacity within organisations and their support needs in the future. Those who took part in the follow up interviews were

Cullen Play Centre

This unincorporated charitable organisation delivers sessional day care to 2-4 year olds; run a Rising 3s/Playgroup for children from the term before they turn 3 until school age and a Tiny 2s Group for younger 2s. They also operate a Parent & Toddler Group. and provide both structured and unstructured play activities, following the Birth to 3 and 3-5 Curriculum Guidelines. They are affiliated with Highland Preschool Services.

Down to Earth

An Industrial and Provident society which is a registered Self Build Housing Association. They aim to produce three self-built sustainable, affordable, low impact houses constructed using a high percentage of reclaimed and recycled materials and which can be used as a template for future developments.

Dufftown Community Resource Centre

A charitable company limited by guarantee which owns a community resource centre which delivers information and advice, IT services, jobseekers advice and a community newsletter.

Ekopia Resource Exchange Limited

Ekopia is a co-operative which is an IPS and a Community Benefit Society regulated via the Financial Services Authority in which there can only be a 'reasonable return to members'. Members of the co-op buy shares which are used to invest as patient capital in ethical businesses and social enterprises. There is currently over half a million pounds in investment.

Elgin Youth Development Group

A charitable company limited by guarantee which operates a youth café as a meeting place for 12- 18 year olds. It operates 5-6 nights per week and on a Saturday afternoon. Sessions are also delivered for young people with physical disabilities, learning disabilities and young carers.

Findhorn Village Centre

A charitable company limited by guarantee. Its main activities are operating a community resource centre, a visitor centre and a hostel. They sub let space to Wild Things, an environmental organisation and are home to the Moray Gig Sail Training Boat.

Forres Area Credit Union

A community credit union serving people living and working in Forres and the surrounding area. Forres CU operates as a co-operative and is registered as an industrial and provident society and is wholly owned by its members.

Forres Groups Action

A charitable Co Ltd by Guarantee whose objectives are to help volunteers and voluntary groups in the Forres area with support and administration.

Green Home

A social enterprise whose core activities is running a service to collect unwanted items of furniture and electrical goods to fix and redistribute to people on a low income. Currently operating as a charitable unincorporated organisation but planning to become a Co Ltd by Guarantee.

Keith Dufftown Railway Association

A charitable company limited by guarantee which owns buildings , track and rolling stock and who operate as a visitor attraction and rail transport link between Dufftown, Drummur and Keith.

Knockando Woolmill Trust

A charitable trust which is working towards the restoration of Knockando Woolmill machinery, buildings and surrounding buildings and policies. Once restored they aim to develop a sustainable business structure which will enable textile production to continue; develop training and education services and provide a meeting place for locals.

Lhanbryde Community Challenge

An unincorporated charity which manages the Community Hall and who provide training and general community development support within Lhanbryde.

Lochpark Adventure Centre

They are part of Care Solutions, a private business, and part of Care UK – a public limited company listed on the stock exchange. Lochpark Adventure Centre's main activity is the Rural Skills training programme for adults with learning difficulties. In addition they operate the adventure centre and bunk house and have a tree nursery project.

Note: It only became apparent during the follow up interview that this organisation was neither a charity or a social enterprise. However, it has been left in the sample because some of the information was relevant to the market which other social enterprises were operating in. The assets and turnover of this organisation have not been included in any of the analysis.

Loft Youth Project

A charitable company limited by guarantee which owns two buildings in Keith. It's main facility is used as a drop in centre for young people, and also hosts an Intensive Support worker who provides one-to-one support to vulnerable young people.

Loft Trading – Craighurst's

A wholly owned trading subsidiary of The Loft Youth Project which operates a café/restaurant which aims to provide work and training opportunities for young people. Any future profits will be donated back to the Loft Youth Project.

The Moray Arts Centre

A social enterprise with charitable status and set up as a company limited by guarantee. They aim to “build and run a centre of excellence for the arts, offering training, education and services that are diverse and led by the public”. They are currently securing the final tranche of funding to build a new arts centre.

The Moray Society

The Moray Society has been in existence since 1836 and operates as a charitable limited company. The Society operates the Elgin Museum which is the only private museum in Moray and owns the museum and some adjoining properties.

Moray Carers

Moray Adult Carers project is part of a national charity (The Princess Royal Trust), working with and providing support to, 1300 adult carers across Moray. The Adult Carers Project is part of Moray Carers but has its own budget and Project Manager and manages its own work plan.

Moray Young Carers

Is set up in the same way as Moray Carers, with the significant difference being that 80% of the Young Carers project income comes from Service Level Agreements.

Moray Textile Project

A charitable limited company **check** which is a training provider in traditional textile skills. The original focus was as a kilt school but the remit has been broadened out now to include a variety of textile skills in an effort to secure the future of the project at the end of ESF funding.

Newbold Trust

Newbold has charitable recognition but is not a registered company in its own right but is accountable to a board of Trustees who are responsible for the strategic management of the enterprise. It describes itself as a “community based holistic education centre, exploring ways to live sustainably” It provides workshop space, retreat space and therapy space and runs a B&B.

North East Scotland Credit Union Ltd

A credit union based in Aberdeen but with a membership drawn from Aberdeen, Aberdeenshire and Moray. Set up under Industrial and Provident society status, operating as a co-operative organisation owned by its members.

Outfit Moray

A charitable co ltd by guarantee providing training and personal development for the community. Most activity has been with young people so far as this is where funding has been available, although the overall objective is to support “transitional work for all ages. Currently describe themselves as operating at 60% capacity and actively considering setting up a trading arm.

Reboot

A charitable company limited by guarantee which recycles and resells computer equipment. Most of the reconditioned computers are sold to community and charitable organisations and individuals who are disadvantaged in some way. They also recycle mobile phones and ink cartridges.

Waste Watchers

Moray Wastewatchers is a project which operates as a social enterprise within Moray Reach Out. Moray Reach Out is a charitable company limited by guarantee. The enterprise provides a can recycling service which provides quality workplace training for adults with learning difficulties.

The diagram overleaf attempts to show where each of the organisations interviewed fits in on a continuum showing to what extent they have enterprise or charitable objectives and on another how much of their income is generated through trading.

Emerging Themes

1. Legal structures

- 1.1. 20% of the organisations (5) surveyed did not operate as legal entities in their own right but were projects of larger charities and in one case a 'hands off' council initiative. However of these 3 of them were actually generating most of their income from trading and not from grants.
- 1.2. Three organisations were currently operating as unincorporated bodies even though they are employing people, entering contracts and in receipt of large amounts of money from private trust and public funders. There is no limited liability for committee members under this structure.
- 1.3. In one case the management committee had put off becoming a limited company as it was felt to be 'too complicated'; a childcare organisation was advised not to incorporate by its umbrella support organisation. The third is in the process of becoming incorporated, which seems a logical move as it currently has a turnover in excess of £300,000 and is a significant employer.
- 1.4. Therefore of the three unincorporated organisations one is already in the process of incorporating and the other two would like advice to help them decide what the best legal structure is for them to adopt.
- 1.5. Only one of the organisations surveyed had a separate trading arm, although two others were considering doing so as their share of earned income increases.
- 1.6. None of those interviewed had utilised the new Community Interest Company (CIC) model, although one had considered it.

2. Governance

- 2.1. A strong recurring theme was that trustees and directors are very stretched and that there can be an over reliance on one or two key individuals. This backs up the findings of national research carried out for Sencot which identified "...a lack of capacity amongst social enterprise Board members'.
- 2.2. In some cases the issue is not lack of knowledge or ability, but a lack of time to devote to the organisation. In others the volunteers and directors are one and the same therefore it is difficult for people to take a strategic approach.
- 2.3. These themes were encapsulated in one interview where there was a feeling *that "the board now has most of the skills we need, but not the time to get where we need to go fast enough"*. In the same interview there was also a recognition that much of the expertise is invested in one

or two key individuals, a sentiment which was explicitly echoed by 38% of all respondents. If we factor out the private sector interview and the two projects of the national charity this percentage rises to 43%.

- 2.4. Around a quarter of those interviewed felt that there was not enough forward planning and strategic thinking from Boards. This was more likely to be the case in those organisations referred to in 1.1 which operate as projects within larger organisation.
- 2.5. Only one of the organisations interviewed was driven by someone who could be classified as an individual 'social entrepreneur'. This enterprise had the highest turnover, employed the most staff and had the most ambitious plans for future development. The vision and direction of this enterprise is largely invested in one person but with limited committee/trustee involvement – a situation which was perceived to be akin to ***“a snail crawling on a razorblade”***.
- 2.6. Perhaps somewhat surprisingly only a minority of those interviewed explicitly identified lack of business expertise amongst their board or trustees which is at odds with the national picture identified by Senscot of social enterprises having “...difficulties accessing experienced business advisors”. There may be a link between this finding and the comments in 2.3 which indicate investment of skills and knowledge in one or two key individuals.
- 2.7. All of the organisations interviewed banked locally. A number of them spoke about having a desire to move to a more ethical bank, but did not do so because they needed to have a local branch to do business with. Most banked for convenience, and only a few respondents commented favourably on their current banking service.
- 2.8. There was a real dearth of impact measurement across the interview sample. Although interviewees recognised the importance of being able to quantify their social impact very few of them actually did so. This reinforces the findings of national research carried out by Senscot in March 06 which stated that the “development of benchmarking, and monitoring and evaluation that takes into account the social, environmental and community benefits social enterprises generate should be undertaken” in the sector.

3. Trading Activity

- 3.1. Only four of the organisations surveyed had a formal Service Level Agreement with the local authority. One other had an informal 'contract' which could reasonably be interpreted as an SLA.
- 3.2. A further six of the interview sample would like to develop SLA's in the future but are unclear on the process and how to go about this.

- 3.3. An indication of the value of Service Level Agreements within Moray can be gauged by the fact that the Community Services department of the Moray Council alone has over £7 million pounds in SLA's with third sector organisations.
- 3.4. There were a number of issues raised in relation to the transparency of negotiations within the SLA process from organisations which already have SLA's and a lack of understanding of how to go about discussing the potential to secure an SLA from those who do not currently have any.
- 3.5. There also seemed to be some confusion around the costing mechanisms used when negotiating SLA's. One example which came up seemed to show that one enterprise were being paid a lower day rate for providing supported workplaces than is the norm in other local authorities, and that within Moray there seemed to be a ratio of 4:1 in relation to how much different organisations were being paid to work with the same client group.
- 3.6. There was a general feeling that there needed to be some training provided in relation to negotiating SLA's and that this training should include those commissioning the services as well as those tendering. This issue has also been identified nationally by Senscot with a need to make "urgent progress...with the public procurement of goods and services from social enterprises, as currently these operations are largely unavailable."
- 3.7. Most of the organisations interviewed are looking to increase their trading income and are keen to develop new activities in order to do this. However, there was some confusion as to how to do this.
- 3.8. Those organisations which currently have or are developing building assets plan to generate additional income through these assets. In some cases these are through core activities (e.g. delivering training or classes), in others income is generated through leasing property or hiring rooms out
- 3.9. One of the organisations interviewed has purchased a café which they are operating as a trading arm as part of a longer term strategy to develop an asset base and income stream. However, they did feedback that this has not been an easy process, and that there has not been any additional revenue generated in the short term, with the focus being on developing the business sustainably. In the words of one of their Directors who was intervieweddon't forget this bit!!!
- 3.10. The findings above reinforce the national picture where it has been identified by Senscot that "...the greatest need appears to be for post start-up core funding, to bridge the gap between start up and sustainability."
- 3.11. Only one organisation mentioned the procurement website (publictender.co.uk) which advertises contracts in Moray and the Highlands and Islands. There was general bafflement from respondents on what procurement meant and how to find out about procurement

opportunities. These findings chime with Sencot's national research which identified a need to look at "Service Level Agreements and procurement in rural areas, as there are indications these may not be sufficient enough for social enterprise growth".

- 3.12. Over 40% of the respondents identified that they had very poor web presence and that they would like to improve on this but do not have the skills or resources to do so. One organisation generates most of its bookings via the web, one other wants support to develop on-line retailing.
- 3.13. Only a few organisations had current business plans in place, and a quarter of all those interviewed would like help in relation to business planning. One who did have a plan commented on how they had been 'forced' to produce one by a funder and it had turned out to be a very useful process which had helped their development.
- 3.14. Marketing was a theme which came up regularly as a support need, a finding which corresponds to recent national research carried out by Rocket Science which showed that "Marketing was ranked as the most important organisational activity that social enterprises would like most help with in the next three years...The majority of respondents (80%) felt that more specialist marketing help and advice should be available for social enterprises"
- 3.15. Around a third of those interviewed could not deliver their service without the input of volunteers. However, as one commented, "...the volunteers are crucial, but the more of them you have the more support the board have to give".
- 3.16. Staffing was also another factor cited in relation to trading and developmental capacity. In some cases there had been a loss of funding for staff posts which had delayed progress. In one case, there was an identified need to recruit a new member of staff with more business expertise to counterbalance a feeling that "...in this sector people lack business expertise and this lack of knowledge/expertise can be a barrier to seeking Business Planning help from obvious sources"

4. **Assets**

- 4.1. 40% of the organisations interviewed operate out of rented premises. Of those who rent from the council, those who are in the training and recycling sectors do so at commercial market rates and two youth work/childcare organisations do so at peppercorn or notional rates.
- 4.2. The remaining 60% of those interviewed already own or are in the process of developing assets.

- 4.3. Most of those who owned buildings were happy with the current condition of the asset.
- 4.4. One youth based initiative was hoping to secure grant funding for internal refurbishment which it is felt would greatly increase their potential to generate income from external lets.
- 4.5. One organisation described their building as a liability rather than an asset at present – although their purpose is to renovate a historic building and retain it as a textile manufacturing site.
- 4.6. There is a definite link between organisations which have assets and their likelihood to include loan funding in their business planning.

5. Support

- 5.1. In general those interviewed were happy with the support provided through HIE- Moray, although there was a feeling that it was not always easy to know where to look for the support in the first instance. The general follow up support provided through Development Partners was perceived as being very positive.
- 5.2. There seemed to be a trend that organisations identified their main sources of support as coming from either HIE Moray or Moray Council. It was more common for only one of these agencies to be identified as providing support rather than both being involved together.
- 5.3. However most respondents were still getting support from a number of different bodies, which is also the picture nationally where Senscot has identified that “social enterprises ‘pick and mix’ their support agencies”.
- 5.4. Both of the credit unions interviewed identified a lack of support within Moray. NESCU identified a significantly lower growth in membership within Moray as opposed to Aberdeenshire and Aberdeen City where they have Development Worker support within wider regeneration strategies.
- 5.5. Under a recent ruling from EU, credit unions can now be totally or partially classified as “services of general economic interest” which makes them exempt from the restrictions of State Aid guidelines and recognises the wider social objectives which they are pursuing.
- 5.6. There were significant gaps in the support available, particularly in the key areas of legal advice, marketing and sales.

6. Centre of Excellence

- 6.1. The idea of having a one-stop shop which would be able to provide a range of advice was seen as being a positive development for the future.

- 6.2. The consensus seemed to be that such a one-stop shop would have to be friendly and accessible and backed up with good on-line support. This again is consistent with the needs identified nationally by Senscot for "...a need for more co-ordination of support services, and an enhanced portal that helps people learn from successful exemplars.
- 6.3. It was felt by some of the more mature organisations, that there was a need for more specialist bespoke support rather than generic advice. The idea of the centre which can draw in external expertise was seen as being the ideal model. Senscot's national research identified a need for "...support from experienced social enterprise practitioners who understand the sector but who have the necessary skills to provide quality advice. Providing this support should be funded".
- 6.4. The provision of backroom support, particularly in relation to PAYE and possible management accountancy services was seen as being worth pursuing. However, these would have to be both professionally delivered and affordable.

6.5. SWOT Analysis

Strengths	Weaknesses
<p>Developmental potential of organisations who already own assets</p> <p>Some organisations taking an asset based approach to development</p> <p>Desire of the enterprise company to see the growth of social enterprise within Moray</p> <p>Significant income currently being generated through Service Level Agreements</p> <p>Commitment of paid, volunteer staff and Directors to the social objectives of the enterprises</p> <p>Apparent desire of individual organisations to progress from grant funding to income generating culture</p>	<p>Very poor measurement of social, economic and environmental impact of social enterprises within Moray</p> <p>Lack of capacity of boards/trustees to take organisations forward.</p> <p>Poor web presence of organisations</p> <p>Perception that support is difficult to access, particularly when starting out</p> <p>Perceived lack of transparency and funding rationale in Service Level Agreements and contracts.</p> <p>Strong gaps in support in relation to marketing and legal advice in particular</p> <p>Lack of understanding of the procurement process</p>
Opportunities	Threats
<p>Potential to develop a one-stop shop to provide support</p> <p>Potential to set up a Moray wide Social Enterprise Network to aid networking and facilitate training</p> <p>Acceptance of Community Planning Partnership members of the principle of full cost recovery in all funding arrangements</p> <p>Constraints on council budgets and the on-going review of Service Level Agreements</p> <p>Develop stronger links and joint training initiatives with procurement officers.</p>	<p>Lack of capacity of boards/trustees to take organisations forward</p> <p>Potential liabilities for trustees in unincorporated bodies which are trading and employing staff</p> <p>Inability of social enterprise Organisations to demonstrate their social benefit</p> <p>Constraints on council budgets and the on-going review of Service Level Agreements</p> <p>Poor or inconsistent governance of individual organisations throughout the sector (threaten quality)</p>

Conclusions and Recommendations

Legal structures

- There were three organisations who that explicitly referred to worries about their current unincorporated status and whether this was the most appropriate structure for them.
- Others identified an awareness of the potential to set up trading subsidiaries, but a lack of guidance on how best to go about this.
- One organisation referred to a funder making a grant offer conditional on changes to their memorandum and articles and of feeling "bounced" into this without adequate advice.

There would therefore appear to be a support need to provide advice on legal structures.

Governance

- As might be expected there are severe capacity issues across the sector in Moray just as there are elsewhere in Scotland. The scenario of one or two key individuals playing a significant role in the governance of the organisations interviewed is perhaps encapsulated in the quote from one director that "**...if our chair went out of the picture it would fold**".
- It is somewhat surprising that some organisations have been able to draw down extensive public funding while operating as unincorporated bodies.. Whilst over bureaucratic committee structures can hinder decision making in the business environment in which social enterprises operate, there is a balance to be struck between operational efficiency, transparent accountability and providing adequate legal protection for volunteer trustees.
- It is possible to discern two different operating models - between those organisations which operate as more of a collective, community based organisation and those that are driven by a key individual who is driven by a passion, and who wants to be both an employee and a stakeholder/ director involved in the governance and strategic direction of their enterprise.
- It is clear therefore that there is not one legal structure or method of operating which suits all. However, it is perhaps surprising that none of the organisations surveyed or interviewed had gone for the new CIC status, which would in many ways be a more appropriate vehicle for the way in

which they **actually** operate and are governed rather than what they theoretically claim to be.

- A number of organisations interviewed had benefited from capacity building grants from Lloyds TSB which allowed them to bring in consultants to help review their position, and within that how effectively they were governed. This theme of bespoke rather than generalised support was identified as a positive thing by a wide range of respondents in the wider support context.
- One respondent noted that "Volunteer Board members are being asked to take on increasingly onerous and risky responsibilities as organisations grow (bigger budgets, more complex financial accountability) and although you want them to be well trained you do not want to frighten them off.. A training package that was accredited.... would be helpful".

It is therefore recommended that more consideration be given as to how such a tailored support and training package could be delivered in Moray which will help address some of the governance issues identified above.

- There was also a recurring theme about the time capacity that volunteer trustees/directors feel that they can give. There appeared to be a feeling from most interviewees that they had enough skill on their boards, but that the skills and knowledge were largely invested in one or two key individuals who were often short of time.
- However, this lack of time is a factor in inhibiting development – a situation which is greatly exacerbated in those organisations which also identified a lack of skills at the trustee level to sustain or develop activities.
- There is clearly a link in the difficulty that some boards have to plan strategically when so much of their effort is going in to maintaining current activity levels. Many Directors understood that there was a difference between their function in terms of governance and their involvement as key volunteers, but in reality people were often fulfilling both roles.
- Even those organisations which described themselves as stable in relation to governance were open to the idea of recruiting new members with specific skills – in one case by advertising for people with a business background. There would appear to be a shortage of 'detached' directors/critical friends who are recruited for a particular skill set as opposed to 'representative' directors who have been recruited from the membership.

Clearly there is no magic wand which can be waved

but consideration should be given as to how to engage a more diverse sample of people on to social economy/enterprise boards.

Different approaches should be considered including partnership working with bodies such as REAP who place retired business people with third sector organisations or setting up a new scheme within Moray .

Trading Activity

- The delivery of services for public agencies through Service Level Agreements and contracts is likely to increase in the short to medium term based on all of the indications coming out of the Scottish Executive and UK government. Locally both HIE Moray and the Moray Council endorse this approach within the 'Moray 20 20' strategy.
- However, there appears to be a number of issues relating to SLA's, some which apply to organisations who currently work with SLA's and other issues for those who don't.
- Amongst those who have SLA's there appeared to be a feeling that the negotiation process was not always clear or consistent with concerns raised about costings.
- For those who don't have service level agreements there appeared to be a desire to find out about SLA's and to understand the process whereby an SLA can be initiated.
- Moray Council has recently carried out a cross departmental review of all current SLA's and recruited a new officer to take the findings forward.
- It is yet untested as to what effect the new Single Status Agreement will have in relation to SLA's and work being delivered by social economy organisations if the wage differentials are significantly different from the equality based costings within local government which have been identified through job evaluation.

It is recommended that a simple booklet be produced to explain what a Service Level Agreement is and how these are initiated, developed and monitored by the key public agencies within Moray.

The obvious starting point would seem to be the Moray Council review within the context of the wider Community Planning Partnership.

- Respondents also spoke of the need to make links with procurement and commissioning officer to raise awareness on both sides about how SLA's and contracts work.

- For many, terms like SLA and Procurement are just seen as 'buzz' words and there is little understanding of what is actually meant by these terms.
- Within the Highland area HISEZ has run a number of procurement training events to bring procurement officers and social enterprises together to help them better understand each other. There has also been the development of an on-line tendering site which only one of our interview sample was involved in.

It is recommended that the HISEZ model of providing training which brings together procurement officers and social enterprise/economy organisations is replicated in Moray.

- The findings of this research exercise reflect national research carried out on behalf of Senscot which identified a real need for "...post start up core funding to bridge the gap between start up and sustainability".
- There is a danger that within Moray some of the flagship social enterprises will be affected by this gap in funding which is crucial for them to become financially viable in the longer term. If any of these organisations were to fold during their developmental phase it could have a significant negative effect on the image of social enterprises within Moray.
- There is arguably an onus on some of the national funding streams such as Futurebuilders to take a longer term investment approach to see these enterprises grow and become exemplars for the sector within Moray. Likewise, it would be helpful if there were investment resources allocated locally to support individual social enterprises.
- A growing number of the organisations interviewed intend to use loan finance in the next three years to further their social objectives. Within the Industrial and Provident sector we interviewed three organisations, - one of which provides patient capital for ethical enterprise and two others which have grown with loans from other co-ops and/or their own members.
- The other organisations which were planning to secure loans were aiming to do so with high street banks, although one did comment that "**we could have a credit union type thing for social enterprises – why not**".
- Of those organisations not considering loan finance, one of the barriers which was most common was the fear of taking out a loan and the impact it would have on core activities if the loan could not be repaid.

There could therefore be some merit in looking at local investment vehicles for new and emerging social enterprises which could include options such as loan guarantee schemes, soft loans and patient equity investments .

- Two credit unions were interviewed during this research, one which serves people in the Forres area and another which is open to everyone else in Moray as part of the Grampian wide North East Scotland Credit Union.
- Both of these social enterprises identified a lack of local development worker support as an inhibitor in growing their business. In the past there has been a reluctance on the part of public agencies to fund credit unions directly for fear of falling foul of State Aid guidelines.
- A recent EU ruling has now defined credit unions as “services of general economic interest”, thus removing them from the State Aid strictures.

It is recommended that consideration is given to how to best support the growth in credit union membership within Moray. Options include providing direct financial support and infrastructure support through local pay points in civic sites such as local authority access points.

Assets

- There is a growing awareness of the importance of developing a building/land asset base amongst social economy organisations in Moray.
- There was a clear link amongst those interviewed between owning assets and accessing secured loan finance to expand or develop services.
- There are still a significant number of organisations which rent premises from both the public and private sectors at commercial rates.
- There were some small scale examples of where social economy organisations were sub-letting to other social economy organisations.

Consideration should be given as to how to help social economy organisations to develop an asset base. This should be incorporated into any potential loan guarantee or investment scheme.

There is also a link between proposals for a “one-stop” social enterprise “Centre of Excellence” outlined later on.

There is also scope to identify a Moray-wide Development Trust approach to acquiring rental property for social economy organisations which keeps income within the sector.

Support

- The support needs in Moray are broadly similar to the national trends identified by Senscot. These show that organisations get their support from a range of different agencies, and that the type of support is fairly generic rather than specialised.
- There is a general perception that the support that is available is not always easy to track down, particularly in the early stages.
- The idea of having a one-stop shop which was identified as the main point of contact and which had access to a wide range of expertise was seen as being a positive development.
- General support needs were identified in relation to a wide range of training areas such as business planning, financial planning, winning contracts, developing products, pricing, leadership, board training and legal advice.
- There were particular issues identified in relation to accessing good quality marketing support and legal advice.

There appears to be a demand for a range of support services to be provided and to be accessible. Proposals should be formulated to set up a Moray-wide Social Enterprise Network which can act as a new “hub” organisation which will network new and emerging social enterprises, co-ordinate training needs and facilitate the provision of both generic and specialist advice.

- There appeared to be a dearth of evaluation / impact evidence to demonstrate the social benefits which are provided through social enterprise service delivery.

- The pervading cultural mindset of seeing evaluation / impact assessment as an 'add on' rather than a core activity is something which is going to have to change if social enterprise in Moray is going to be able to secure more contracts/SLA's within the context of Best Value.

It is crucial that social enterprises and social economy organisations accept their responsibility to demonstrate the added value they bring and that financial support is provided over the next three years to facilitate this process and embed it within social enterprises.

Centre of Excellence

- There was widespread support for the principle of a centre of excellence which would provide office accommodation, backroom services and act as a training centre.
- There is clear synergy between this proposal and the need identified previously for a one stop shop to provide support to the sector.

The next stage of this research will be to further explore the options for a "Centre of Excellence" within Moray with a feasibility study to be completed by the end of March 2007

Appendices

Questionnaire - REAP

Questionnaire responses

Follow up interview template

Interview fee pro-forma

Table of organisations in receipt of SLA's from the Moray Council Community Services Department.

Questionnaire – HISEZ

Project Brief

Bibliography

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Moray Social Enterprise - Social Economy Survey

REAP has been commissioned by HIE Moray to carry out a mapping exercise to identify the support and development needs of social economy organisations within Moray. This research follows on from work which was carried out last year by HISEZ on behalf of the Moray Social Economy Partnership.

It would be appreciated if you could take the time to complete this questionnaire and return to REAP by post or e-mail. At a later date a number of organisations will be selected to a follow up interview for which a participation fee of £100 is payable.

1) Name of Organisation:

2) Main Contact:

3) Address:

4) Post Code

5) Phone:

6) e-mail:

7) website:

Legal Structure

8) Which of the following best describe your organisational status.
(if more than one, tick all which apply)

Unincorporated voluntary group
Charity
Company Ltd by Guarantee
Company Ltd by Shares
Co-operative
Community Interest Company
Social Enterprise
Social Firm
Other ----- Please Specify

9) Are you a membership organisation? Yes No

10) If yes, how many members do you have?

11) How many people currently serve as directors/trustees of your organisation?

Less than 3 3-5 6-8 more than 8

12) Please describe your core business

13) Please describe the social benefits that arise from your activities

14) How many staff do you currently employ?

Full-Time: Part-time: Sessional:

15) How many volunteers are involved in your service delivery?

Full-Time: Part-time: Sessional:

Capacity

16) What is your annual turnover? £

17) How much does your organisation have access to as unrestricted financial reserves?

Enough for one month trading
Enough for 1-3 month trading
Enough for more than 3 months trading

18) What percentage of your income comes from;

Grants	Training
Membership Fees	Consultancy
Retail	Other – please specify
Investments	
Service Level Agreements	

19) Over the next 12 months do you anticipate that your level of trading income will;

Drop
Remain the same
Increase by less than 20%
Increase by more than 20%

20) Have you used loans to develop trading activities in the past 3 years?

Yes No

21) Have you used an overdraft facility to develop trading activities in the past 3 years?

Yes No

22) Are you considering using loan finance over the next 3 years?

Yes No

23) Are you considering using an overdraft facility to develop trading activities in the next 3 years?

Yes No

24) Do you own any buildings or assets?

Yes

No

25) If yes, what is the current estimated value of these assets?

26) If you own property, how would you describe the condition of that property?

Poor

fair

good

excellent

Support Needs

REAP are currently looking into the potential for a Social Enterprise Centre of Excellence in Moray. This "one-stop shop" would provide training and support to social enterprises, office space and a centralised backroom service.

27) In order to test out the support needs of the sector could you indicate the current availability of support available to you in Moray and any comments on how things could be improved.

Help with	Poor	Fair	Good	How support could be improved
Business Planning				
Financial Planning				
Winning Contracts				
Product Development				
Pricing				
Leadership Training				
Board Training				
Legal Advice				
HR Advice				
Backroom services – payroll, accounting etc				

28) Do you have any other support/training needs? (continue overleaf if required)

29) Would you be available for a follow up interview?

Yes

No

Thank you for completing this questionnaire.

